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October 14, 2005

California Energy Commission Dockets Unit
Attn: Docket No. 04 IEP 1K
1516 Ninth Street, MS-4
Sacramento, CA 95814-5512

RE: 04 IEP 1K Committee Draft Document Hearings

The California Biomass Energy Alliance (CBEA) is pleased to provide comments on Chapter 6 of the Draft Integrated Energy Policy Report (IEPR). CBEA supports the following changes to the section titled "Realizing the Strategic Value of Biomass Resources" beginning on page 103.

1. Incorporate the California Biomass Collaborative white paper.
The recently published PIER Collaborative Report, *Biomass in California: Challenges, Opportunities, and Potential for Sustainable Management and Development*, by the California Biomass Collaborative should be incorporated into the IEPR by noting it in the first paragraph of the biomass section and providing it as an addendum to the IEPR as a whole. Although the Draft IEPR includes some of the Collaborative's general recommendations, the paper as a whole is an excellent beginning, middle and end for identifying the challenges, opportunities and future potential for biomass. Its large stakeholder input and involvement makes it even more valuable.

2. Document the status of the biomass industry.
After the first paragraph, it is important to make note of the status of the biomass industry both for its impact on the state's goal of increasing the use of renewable resources and as further justification for the need for a state policy on biomass, as mentioned in the second paragraph.

The status of the industry is as follows: The current biomass industry in California consists of 29 operating plants, producing 620 MW of electricity, and providing for the annual disposal of 7.8 million tons of biomass that would otherwise be open burned, buried in landfills, or allowed to accumulate as excess fuel in the state's already overstocked forests. This level is down from a high of 53 plants and 760 MW in the early 1990s. There are 13 idle biomass plants, with five having closed since the end of the energy crisis.

3. Provide information and policy recommendations based on what we already know about the issues and needs of the existing industry.

After the second paragraph, after referencing the need for a state biomass policy, provide information on what issues we already know are facing the industry: 1) The 5.37-cent "fixed price agreements" negotiated during the energy crisis of 2000/2001 are set to expire, depending on the plant, between late Summer 2006 and Spring 2007; 2) 40% of the contracts currently held by biomass plants will expire within the next 10 years, and over 85% will have expired by 2020, 3) the distribution of the Public Goods Charge (PGC) funds by the Energy Commission (CEC) to the biomass plants as partial recompense for the several environmental and waste management benefits provided, is currently scheduled to end Dec 31, 2006; and, 4) there is no long-term funding source or cost-shifting mechanism in place beyond the PGC funds.

Based on information provided in the Collaborative's report and by the existing biomass industry itself, the IEPR should include the following policy recommendations in order to get the biomass industry back on track by addressing the short-term, survivability issues, and encouraging the growth of the industry.

4. a. Policy Recommendation #1: The Legislature should act swiftly when the session resumes in January to provide for the re-authorization of the PGC fund monetary support, with escalation, until the end of the collection of the PGC funds from ratepayers.

All of the operating biomass plants receive support from the PGC renewables trust fund that is funded by ratepayers and distributed by the CEC. Because the consumption of wood wastes is environmentally beneficial in a number of ways, the State has determined it preferable to have the biomass plants run full-time, as opposed to operating only during peak periods of electricity demand. To accomplish this, the PGC subsidy funds are paid, via the CEC, to biomass plants only during off-peak times of electric demand, when electricity prices are otherwise low. Payment support during off-peak times has resulted in all of the biomass plants running essentially baseload, consuming the maximum amount of fuel.

The distribution of the PGC funds by the CEC is currently scheduled to end December 31, 2006, and requires reauthorization by the Legislature to continue to the end of the period of collection of the PGC funds from ratepayers at the end of 2011.

First, the PGC funds distribution by the CEC should be extended during the 2005 Legislative session to the end of 2011, and the support payments to biomass plants by the CEC should be continued.

Second, the CEC should escalate the PGC subsidies for the balance of the term of the PGC program, in accordance with a reasonable index such as the CPI of the nearest major metropolitan area. Escalation of the "fixed subsidy" is justified by the fact that every business cost of biomass plant operation, such as medical and other insurances, salaries and benefits, chemicals and consumables, fuel transportation costs, and contract maintenance, increases with inflation. The regulated utilities account for inflation and

escalating costs in their periodic rate adjustments by the CPUC, but biomass plants have no such option. More recently, the incredible increases in the cost of diesel fuel have resulted in increased costs of collection and transport of the biomass fuel by as much as 20%, forcing periodic curtailments on many of the plants, despite the existence of the CEC subsidy in off peak periods.

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4. b. Policy Recommendation #2: The CPUC should act as soon as possible to renew the fixed energy prices of the renewable contracts with the IOUs, with a new starting price that is escalated, for a minimum of 5 years, or optionally until the end of each plant's contract.

Twenty of the 29 operating biomass plants are running under the 5.37-cent "fixed price agreements" negotiated during the energy crisis of 2000/2001. These agreements expire, depending on the plant, between late Summer 2006 and Spring 2007. Seven of the remaining eight plants are operating under various contractual arrangements, all of which include an economic "cliff" of some sort within the next few years. One small plant is a merchant.

Those contracts helped keep renewable QFs generating and therefore helped the state avoid even more rolling blackouts that year. The fixed-price QF contracts overall also benefited ratepayers, generators and the state in other ways. Since March of 2002, ratepayers have saved approximately $400 million as a direct consequence of the Commission's approval of the fixed-price contracts. For the time being, ratepayers are assured of a reasonably-priced and predictable rate for clean power. Moreover, the fixed price contracts have provided existing renewables generators with a stable revenue stream, which most generators prefer to fluctuating revenues even if the fluctuating revenues ultimately are higher in total. Pricing stability will also ensure that California will maintain a reliable renewable generation portfolio from the existing generators into the future.

4. c. Policy Recommendation #3: Enact a biomass-only segment within the renewable portfolio standard (RPS) as one way to provide for continued operation of the existing plants in the longer term, beyond the time when their contracts with the IOUs expire, while at the same time encourage growth of the biomass industry.

The existing RPS imposes the requirement on IOUs to reach a level of 20% renewable energy in their retail sales portfolios by 2010 (as amended by the State's Energy Action Plan). The RPS requires a technology-undifferentiated number of kilowatt-hours to meet the 20% requirement. The fuel collection, processing, and transportation costs borne by the biomass industry result in biomass power being more expensive than most other forms of renewable energy (the fuel for a wind generator is free, as is the fuel for a geothermal generating plant or a small hydro-electric plant). As a result, biomass power is not competitive in a "low-price wins" RPS competitive solicitation, and biomass is not expected to prevail within the existing RPS.

Like all renewables, energy production from biomass fuels displaces the production of a like amount of energy from conventional (fossil) sources, with all of the social and environmental benefits associated therewith, including no net greenhouse gas generation. However, unique to biomass, the use of biomass fuels for energy production avoids the societal costs of the alternative disposal of these waste materials by burial in landfills, open burning, or forest decomposition. The avoidance of alternative disposal of biomass residues is by far the most important source of the environmental benefits associated with the production of energy from biomass resources, that has, by itself, been shown to be worth more than 10 ¢/kWh of electricity produced.[1]

The future of biomass energy production faces a difficult dilemma. On the one hand, it delivers unique and valuable social and environmental benefits that not even other renewables can match. On the other hand, biomass energy production is expensive, and in most cases the energy market cannot carry the entire enterprise by itself. The case for public policy intervention on behalf of biomass energy production is clear and overwhelming.

A biomass-only segment within the RPS, set at 3.0% (that is, 15% of the overall 20% RPS requirement), should be established, to provide a competitive opportunity for plants with expiring contracts, as well as for new biomass plants. A 3% biomass RPS requirement would provide for approximately a 50% increase in the biomass industry, relative to today's level, and would be well within the readily available biomass fuel resources of the State.[2] The competition for low price, within the biomass category, would assure the lowest possible biomass energy costs to reach the 3% threshold.

4. d. Policy Recommendation #4: Impose a surcharge on all trash-disposal bills as 1) an alternate funding mechanism to the PGC funds for supporting a biomass RPS segment, or 2) as an alternate support for the industry in lieu of a biomass RPS segment.

Since the biomass industry is, in fact, a massive waste management industry that also happens to produce renewable electric energy, CBEA suggests that the above-market costs of biomass power, if not paid through either the "Existing" or "New Renewables" accounts, be paid for by all of the waste-disposers in California.

Since 1989, with the passage of AB 939 (the landfill waste diversion, recycling, and reuse bill), the costs of the California Integrated Waste Management Board (CIWMB) have been met by a small surcharge on the trash disposal bills of Californians. Since the non-electric environmental benefits of the biomass industry (e.g. disposal of agricultural wastes, lessening of forest overstocking and fire danger, improvement of watersheds, conservation of landfill space and compliance with AB 939) are enjoyed by all Californians, a small surcharge on everyone's trash disposal bill appears justified. The

[1] Morris, G., *The Value of the Benefits of U.S. Biomass Power*, NREL Report No. NREL/SR-570-27541, November 1999.

[2] *Biomass Resource Assessment in California*, CEC PIER Program Consultant Report, CEC-500-2005-066-D, April 2005

surcharge would be small, probably less than 75 cents per month, and could be distributed to biomass plants as a fuel-based subsidy (i.e. $/ton of fuel used). Administration of the funds could be by the CEC or the CIWMB.

Without a biomass-only segment of the RPS, the industry continues to need additional funding in order to continue and have any chance of expansion. Funds could be directed to the CEC for this purpose.

Finally, such a surcharge is in accordance with the provisions in AB 1890 (1996, Chapter 854), which highlighted the importance of cost-shifting in order to preserve and expand the industry. Public Utilities Code Section 389 specifically states:

> The Secretary of the California Environmental Protection Agency, in consultation with interested stakeholders including relevant state and federal agencies, boards, and commissions, shall evaluate and recommend to the Legislature public policy strategies that address the feasibility of shifting costs from electric utility ratepayers, in whole or in part, to other classes of beneficiaries. This evaluation also shall address the quantification of benefits attributable to the solid-fuel biomass industry and implementation requirements, including statutory amendments and transition period issues that may be relevant, to bring about equitable and effective allocation of solid-fuel biomass electricity costs that ensure the retention of the economic and environmental benefits of the biomass industry while promoting measurable reduction in real costs to ratepayers. This evaluation shall be in coordination with the California Energy Resources Conservation and Development Commission's efforts pursuant to subdivision (b) of Section 383, addressing renewable policy implementation issues. The secretary shall submit a final report to the Legislature, using existing agency resources, prior to March 31, 1997.

Nine years later, the requirement has been satisfied, the reports have been written, but there has been no action taken.

Thank you for taking our comments and recommendations into consideration. If you have any questions, you may contact me or CBEA's Sacramento representative, Julee Malinowski-Ball at 441-0702.

Sincerely

Phil Reese
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Board Director, Colmac Energy, Inc.